

# FINANCIAL LITERACY: KNOWING WHAT YOU NEED TO KNOW TO ACHIEVE YOUR FINANCIAL GOALS.



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## HOW FINANCIALLY LITERATE ARE YOU?

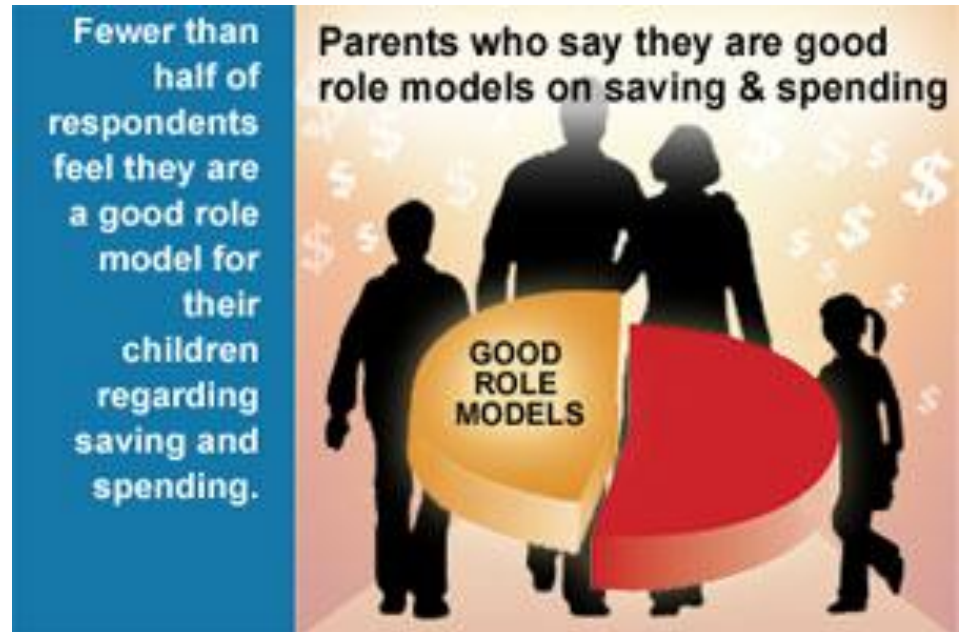
# AMERICA'S FINANCIAL LITERACY

- Average family spends **\$1.22** for every dollar it earns
- **One in five** American families with annual household income of less than \$50,000 is spending 40% of after-tax income to service its debt
- In 2003, the average American household owed **\$8,565** in credit cards, compared to \$2,600 in 1989 – that's a 329% increase.
- In 2005, **2 million** Americans filed for bankruptcy – the highest amount in history.



# AMERICA'S FINANCIAL LITERACY

- **2 out of 3** households will probably fail to realize life goals
- Only **one quarter** of Americans feel very well informed about managing household finances
- Average high school senior, in 2004, **failed** a financial knowledge survey
- Only **47%** of Americans feel they have saved enough for retirement



# WHAT IS THE COST OF FINANCIAL ILLITERACY?

## **Illiteracy leaves consumers vulnerable to:**

- Questionable investments
- Identity theft
- Not-so-golden retirement years

## **Other costs:**

- Increased borrowing and spending
- Higher debt balances
- Higher health costs



# THE HIGH COST OF FINANCIAL ILLITERACY...

## Payday Lending

- Short term loans, long term financial problems!
- Most likely borrowers:
  - Women
  - Minorities
  - Renters
  - Below Area Median Income
  - Only has a high school diploma
- Average APR – **459%**

	<b>\$35,000 Salary</b>
<b>Gross Income (bi-wkly)</b>	\$1346
<b>Minus Taxes</b>	-\$120
<b>Net Income</b>	\$1226
<b>Minus Expenses</b>	-\$963
<b>Balance</b>	\$263
<b>Payday Loan Amt Due</b>	\$377
<b>Deficit</b>	<b>-\$114</b>



# THE HIGH COST OF FINANCIAL ILLITERACY...

## Typical Payday Loan

- \$500 loan
- \$125 fee plus
- 18% APR
- Two week term
- Balloon payment due
- Two weeks later, borrower cannot turn over payment AND support family
- Payday lender offers “helpful service”: pay fee again to flip original loan for two more weeks.

*“The Financial success of payday lenders depends on their ability to convert occasional users into chronic borrowers.”*

*Payday Lending: A business model that encourages chronic borrowing.*

# THE HIGH COST OF FINANCIAL ILLITERACY...

## The Payday Trap

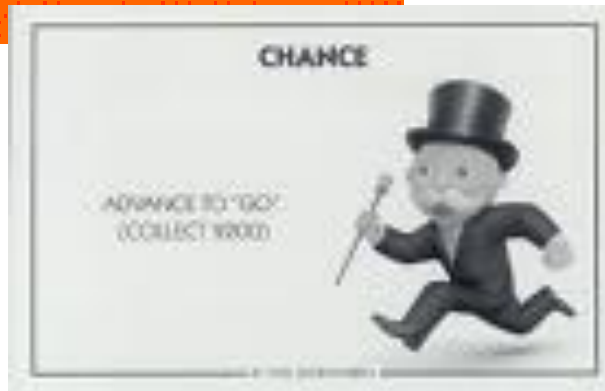
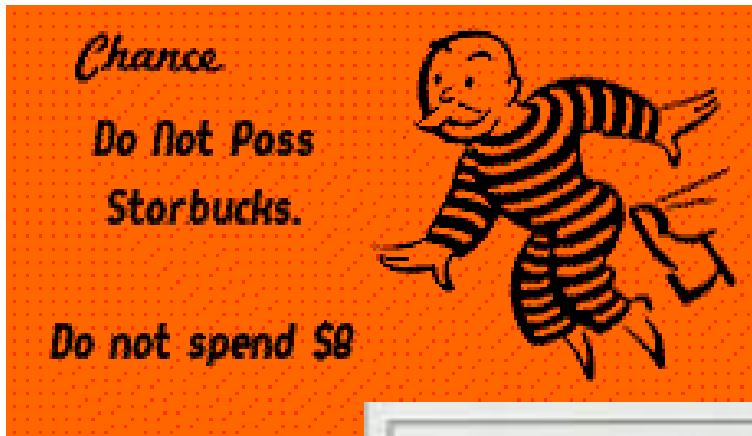
- Average borrower pays almost \$800 to borrow \$325
- In 2005, 90% of payday loans went to borrowers with 5 or more transactions per year
- In 2005, 62% went to borrowers with 12 or more annual transactions
- Only **2%** of loans are taken by borrowers who can pay it back and walk away from payday lending for the rest of the year...



# WHAT IS FINANCIAL LITERACY?

## Financial Literacy is:

- The ability to effectively evaluate and manage one's finances in order to make prudent decisions toward reaching life's goals
- The understanding of:
  - Money
  - Cash flow
  - Basic economic/financial concepts
  - Debt/risk management



# WHAT IS FINANCIAL LITERACY?

**It is achieved by...**

- Lifelong learning and study
- Putting developing skills into practice
- Committing to change
- Paying yourself first



*“There is a very strong relationship between feeling in control of your finances and feeling happy about your finances and happy with your life. **Control over your finances plays a bigger role in determining your life’s happiness than being in control of your job, your health, your friendships and your weight.**”*

Roper ASW, Money Magazine December 2003

# ACHIEVING FINANCIAL LITERACY

Five Key Areas of Personal Finance

## 1. Money and income

*“The most powerful force in the universe is compound interest.”*

*Albert Einstein*



# MONEY AND INCOME

Trade-offs in careers, education and more





# MONEY AND INCOME: HOW MANY HOURS DOES IT TAKE?





# HOW MUCH TIME DOES YOUR MONEY BUY?

Number of hours needed to work based on a salary of ...

	<b>\$15,080 (\$7.25/hr)</b>	<b>\$30,000 (\$14.42/hr)</b>	<b>\$40,000 (\$21.63)</b>
Air Jordan's	20	10	7
Nintendo Wii	35	18	12
2 Colts tickets	27	14	9
Dinner for 2 at St. Elmo's	28	14	10
3 Day Vacation to Hawaii (family of 4)	552	278	185
52" Plasma TV	207	105	70

# MONEY AND INCOME

Consider all the sources...



# ACHIEVING FINANCIAL LITERACY

## Five Key Areas of Personal Finance

1. Money and income
2. **Money Management**



*“The most powerful force in the universe is compound interest.”*

*Albert Einstein*

# MONEY MANAGEMENT

## It requires...

- Prioritizing before we spend
- Budgeting to forecast and control



# ACHIEVING FINANCIAL LITERACY

## Five Key Areas of Personal Finance

1. Money and income
2. Money Management
3. **Spending and debt**



*“The most powerful force in the universe is compound interest.”*

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# SPENDING AND DEBT

**It's important to understand...**

- The benefits and costs of spending alternatives
- That credit is a basic financial tool





# ACHIEVING FINANCIAL LITERACY

## Five Key Areas of Personal Finance

1. Money and income
2. Money Management
3. Spending and debt
4. **Savings and Investments**



*“The most powerful force in the universe is compound interest.”*

*Albert Einstein*

# SAVING AND INVESTING

## Discipline is key...

- Saving means not spending money
- Investing is earning a return on your money

## Saving is the First Step to...

- Identify long-term goals
- Weigh today's expenditures vs. future needs for life goals

## Understanding financial markets is important...

- To recognize risk vs. reward
- To analyze investment security



# ACHIEVING FINANCIAL LITERACY

## Five Key Areas of Personal Finance

1. Money and income
2. Money Management
3. Spending and debt
4. Savings and Investments
5. **Risk management**



*“The most powerful force in the universe is compound interest.”*

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# RISK MANAGEMENT

**You can mitigate risk through...**

- Knowledge
- Insurance
- Caution
- Personal finance tools



# PROGRAM RESOURCES

- Individual Development Account (IDA)
- Family Self Sufficiency (FSS)
- Plan to Achieve Self-Support (PASS)
- Twenty-First Century Scholars Program
- Market Stabilization Program (MSP)
- First Home
- First Home Plus
- Mortgage Credit Certificate (MCC)
- College Choice 529



# INDIVIDUAL DEVELOPMENT ACCOUNTS

- Must be a **resident** of the state of Indiana
- Must have **earned income**
- Must be below **175%** of the Federal Poverty Guidelines
- Must save **\$400 a year** (approximately \$35/month)
- Guaranteed at least a **3 to 1** match rate
- **Four years** of match opportunity



## Qualified Purchases:

- Buy a home
- Rehab your home
- Further your Education
- Start or Expand a Small Business



# FAMILY SELF SUFFICIENCY

*“The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth.”*

Family self-sufficiency (FSS) is a HUD program that encourages communities to develop local strategies to help **section 8 voucher families** obtain employment that will lead to economic independence and self-sufficiency.

## How does FSS work?

- Local Public Housing Agencies (PHAs) run the FSS program. Families must have a Section 8 Housing Choice Voucher to volunteer to enroll in the program.
- FSS families meet with a case manager to define their goals and set up a five-year plan.
- As part of the program, a special FSS (escrow) bank account for the family is opened. If the family's income increases during the program, the PHA does not charge the family more rent. Instead, the rent increase that the family would normally have to pay each month goes into the family's account.
- If the family successfully completes the program, they get to keep the escrowed funds.

# PLAN TO ACHIEVE SELF-SUPPORT (PASS)

## General Information

- An SSI provision to help individuals with disabilities return to work
- Lets disabled individuals set aside money to pay for items or services needed to achieve a specific work goal

## How does PASS work?

- Applicant finds out what training, items or services needed to reach work goal
  - Can include supplies to start business, school expenses, equipment and tools, transportation and uniform requests.
- Applicant finds out how much these items and services will cost.
- PASS can help person save to pay these costs. PASS lets person set aside money for installment payments as well as a down payment for things like a vehicle, wheelchair or computer if needed to reach work goal.

## How does PASS differ from a traditional savings account?

- Funds set aside in PASS account are not counted toward income when determining SSI payment amount. As such, in some cases, **opening a PASS account may increase the SSI payment amount.**

# PLAN TO ACHIEVE SELF-SUPPORT (PASS)

## Example:

Jan Smith receives \$800 per month in SSDI and qualifies for SSI; however has too much income to receive payment. Jan decides to open a PASS account and sets aside \$250 a month from her SSDI and places it into her PASS. Since PASS funds are not considered as income when determining eligibility, Jan Smith's countable income has been reduced and is now therefore eligible to receive SSI in addition to her SSDI.



# TWENTY FIRST CENTURY SCHOLARS PROGRAM

The Twenty-first Century Scholars Program began in 1990 as Indiana's way of raising the educational aspirations of low- and moderate-income families. The program aims to ensure that all Indiana families can afford a college education for their children.

Income-eligible 6th, 7th and 8th graders who enroll in the program and fulfill a pledge of good citizenship to the state are guaranteed the cost of **four years of undergraduate college tuition** at any participating public college or university in Indiana.

Household Size	Maximum Annual Income
2	\$26,955
3	\$33,874
4	\$40,793
5	\$47,712
6	\$54,631

# MARKET STABILIZATION PROGRAM

Through the Market Stabilization Program, IHCDa will offer up to \$15,000 (not to exceed 20% of the purchase price) to qualified homebuyers who will purchase and/or rehabilitate a foreclosed home as their principal residence.

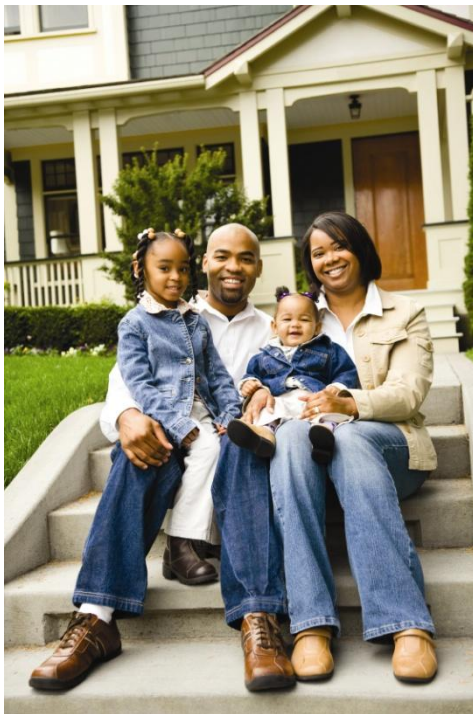
## Eligibility

- Applicants below 120% AMI
- Must be primary residence
- Must complete eight hours of pre-purchase education by state certified counselor
- Home buyers must have a 1<sup>st</sup> mortgage loan that is eligible to be sold on the secondary market (FHA, VA, USDA and conventional loan types), as MSP funds are structured as a 2<sup>nd</sup> mortgage with zero interest, non-amortizing provided that the homebuyer stays in the home for at least ten years.

\*\*\*Note: If below 80% AMI, homebuyer may also be eligible for an additional \$10,000 grant through Federal Home Loan Bank.

# FIRST HOME

The *First Home* program offers qualified Hoosiers below market interest rate mortgages. This program can be used with other plans, such as the FHA/VA, Fannie Mae, or USDA Rural Development financing. Current interest rates can be found by calling (888) 227-4452 24 or by visiting [www.in.gov/ihcda](http://www.in.gov/ihcda) .





# FIRST HOME PLUS

The *First Home/PLUS* program offers the First Home special mortgage rate, as well as 5% down payment assistance. Capped at \$5,000 with zero interest, this is a perfect program for Hoosiers who do not refinance once they have moved into their new home, and who are also committed to staying in their new home for a specific period of time. The **Down Payment Assistance funds must be repaid in full** once the borrower sells or refinances the home.



# MORTGAGE CREDIT CERTIFICATE (MCC)

The *Mortgage Credit Certificate* program offers first-time home buying Hoosiers a Federal tax credit. This **refundable** tax credit amount ranges between 20% and 35% of the interest paid on a mortgage each year, depending on the mortgage loan amount. The **maximum credit per year is \$2,000**. This program is available on a limited basis when announced by IHCD.



# QUESTIONS?



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